

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Lake County Road Commission	County Lake
Fiscal Year End December 31, 2006	Opinion Date June 22, 2007	Date Audit Report Submitted to State June 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

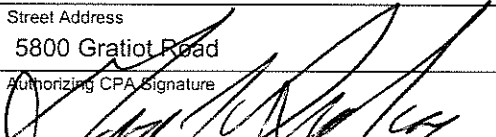
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989) 799-9580	
Street Address 5800 Gratiot Road		City Saginaw	State MI
Authorizing CPA Signature 		Printed Name Gerald J. Desloover, CPA	Zip 48603
		License Number 1101007126	

Lake County Road Commission
(A Component Unit of Lake County)

Baldwin, Michigan

Financial Statements

For the Year Ended December 31, 2006



REHMANN ROBSON

Certified Public Accountants

LAKE COUNTY ROAD COMMISSION
(A Component Unit of Lake County)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements for the Year Ended December 31, 2006	
Statement of Net Assets and General Fund Balance Sheet	10
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	11
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	14-15
Notes to Financial Statements	16-25
Operating Fund Schedules	
General Operating Fund – Schedule of Revenues by Component	26
General Operating Fund – Schedule of Expenditures by Component	27
General Operating Fund – Schedule of Changes in Fund Balance	28



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

June 22, 2007

Members of the Board of County
Road Commissioners
County of Lake, Michigan
Baldwin, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Lake County Road Commission**, a component unit of Lake County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lake County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Lake County Road Commission** as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Lake County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, looped initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Lake County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. The annual report consists of a series of financial statements. The Statements of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities-this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Note that Lake County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The statement of activities presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The component unit financial statements are principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Lake County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Lake County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

Fund financial statements. A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 14 through 15 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 16 through 25 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

The Road Commission's net assets decreased approximately 5% or \$238,053, from \$4,558,580 to \$4,320,527 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Lake County Road Commission Net Assets:

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 1,607,299	\$ 2,037,723	\$ (430,424)	-21.1%
Capital assets	<u>2,947,641</u>	<u>2,801,414</u>	<u>137,324</u>	4.9%
Total assets	<u>4,554,940</u>	<u>4,839,137</u>	<u>(293,100)</u>	-6.1%
Current and other liabilities	56,411	72,608	(16,197)	-22.3%
Long-term liabilities outstanding	<u>178,002</u>	<u>207,949</u>	<u>(29,947)</u>	-14.4%
Total liabilities	<u>234,413</u>	<u>280,557</u>	<u>(46,144)</u>	-16.4%
Net assets:				
Invested in capital assets	2,911,291	2,801,414	109,877	3.9%
Unrestricted	<u>1,409,236</u>	<u>1,757,166</u>	<u>(347,930)</u>	-19.8%
Total net assets	<u>\$ 4,320,527</u>	<u>\$ 4,558,580</u>	<u>\$ (238,053)</u>	-5.2%

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Lake County Road Commission, assets exceeded liabilities by \$4,320,527 at the close of the most recent fiscal year.

By far the largest portion of the Lake County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment).

Governmental Activities

A summary of changes in net assets for the years ended December 31, 2006 and 2005, follows:

	<u>December 31</u> <u>2006</u>	<u>December 31</u> <u>2005</u>
Program revenue		
Charges for services	\$ 394,064	\$ 687,307
Operating grants and contributions		
State transportation funds	2,770,250	2,806,877
Capital grants and contributions		
Federal and state sources	259,509	612,974
General revenue		
Interest and rents	54,262	15,663
Contributions	50,092	5,068
Reimbursements	4,584	2,189
Gain on equipment disposal	<u>5,671</u>	<u>-</u>
Total revenue	3,538,432	4,130,078
Expenses		
Public Works	<u>3,776,485</u>	<u>3,959,400</u>
Increase (decrease) in net assets	<u>\$ (238,053)</u>	<u>\$ 170,678</u>

Governmental activities decreased the Lake County Road Commission's net assets by \$238,053. The key elements of this decrease are as follows:

- There was a 43% decrease in charges for services from the prior year, due to fewer non-recurring maintenance projects on Township roads and State trunklines.
- There was a 1% decrease in operating grants and contributions from the prior year.
- There was a 58% decrease in capital grants and contributions from the prior year, due to fewer non-recurring maintenance projects that were funded with grants and contributions in the current year.
- There was a 5% decrease in expenses from the prior year, due to fewer non-recurring maintenance projects completed in the current year.

A summary of changes on the Operating fund is as follows:

	For the year ended December 31, 2006			Actual for the	
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Year Ended December 31 2005
Revenue					
State sources	\$ 3,118,000	\$3,118,000	\$ 3,029,759	\$ (88,241)	\$ 3,419,851
Contributions	97,000	97,000	42,701	(54,299)	152,629
Charges for services	371,000	371,000	351,363	(19,637)	534,678
Interest and rentals	1,300	1,300	54,262	52,962	15,663
Other revenue	-	-	60,347	60,347	7,257
Total revenue	<u>3,587,300</u>	<u>3,587,300</u>	<u>3,538,432</u>	<u>(48,868)</u>	<u>4,130,078</u>
Expenditures					
Primary road maintenance	1,270,000	1,270,000	1,682,223	(412,223)	1,781,239
Local road maintenance	1,534,200	1,534,200	1,747,567	(213,367)	1,810,649
State trunkline maintenance	380,000	380,000	347,098	32,902	484,271
Equipment expense (net)	337,300	337,300	313,833	23,467	(99,841)
Administrative expense (net)	260,000	260,000	(15,629)	275,629	275,551
Capital outlay (net)	(219,200)	(219,200)	(86,083)	(133,117)	(171,092)
Capital outlay (net)	-	-	23,650	(23,650)	-
Other	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
Total expenditures	<u>3,587,300</u>	<u>3,587,300</u>	<u>4,012,659</u>	<u>(425,359)</u>	<u>4,080,777</u>
Revenue over (under) expenditures	-	-	(474,227)	(474,227)	49,301
Other financing sources	-	-	60,000	60,000	-
Net change in fund balance	-	-	(414,227)	(414,227)	49,301
Fund balances, beginning of year	<u>1,965,115</u>	<u>1,965,115</u>	<u>1,965,115</u>	<u>-</u>	<u>1,915,814</u>
Fund balances, end of year	<u>\$ 1,965,115</u>	<u>\$ 1,965,115</u>	<u>\$ 1,550,888</u>	<u>\$ (414,227)</u>	<u>\$ 1,965,115</u>

General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was unchanged from the original budget. The actual revenue recognized during 2006 was less than the final amended budget by \$48,868.

The final amended expenditure budget for 2006 was unchanged from the original budget. The actual expenditures recognized during 2006 were more than the final amended budget by \$425,359.

The Road Commission did not budget for other financing sources. The actual amount of financing sources recognized for 2006 was \$60,000.

Capital Assets and Debt Administration

As of December 31, 2006, the Lake County Road Commission had invested \$2,947,641 in capital assets. This amount represents a net increase (including additions and deductions) of \$146,227 for 5.22% as follows:

	<u>2006</u>	<u>2005</u>	
Capital assets not being depreciated			
Land and improvements	\$ 61,825	\$ 48,825	26.63%
Construction in progress	8,903	-	100.00%
Depletable assets	<u>29,709</u>	<u>29,709</u>	0.00%
Subtotal	<u>100,437</u>	<u>78,534</u>	27.89%
Capital assets being depreciated			
Buildings	1,363,180	1,363,180	0.00%
Equipment	4,717,733	4,570,183	3.23%
Infrastructure	<u>1,776,421</u>	<u>1,366,063</u>	30.04%
Subtotal	<u>7,857,334</u>	<u>7,299,426</u>	7.64%
Total capital assets	7,957,771	7,377,960	7.86%
Total accumulated depreciation	<u>(5,010,130)</u>	<u>(4,576,546)</u>	9.47%
Total net capital assets	<u>\$ 2,947,641</u>	<u>\$ 2,801,414</u>	5.22%

Major capital asset events during the current fiscal year included the following:

Land	\$ 13,000
Construction in progress	8,903
Various Resurfacing	410,358
Equipment	<u>251,927</u>
Total Additions	<u>\$ 684,188</u>

The Lake County Road Commission disposed of several capital assets (equipment) in 2006. The assets disposed of in 2006 had a net book value of \$0 and a historical cost of \$104,377.

Additional information on the Road Commission's capital assets can be found in note III.B. on page 22.

Long-term debt

At the year end, the Lake County Road Commission had no notes, bonds or installment purchase agreements. The balance of the Road Commission's long-term obligations include accrued vacation and sick pay leave and the remaining amount due in on a lease purchase agreement for a piece of equipment. More detailed information about the Road Commission's long-term liabilities is presented in Note III. C. to the financial statements.

Economic Factors and Next Year's Budgets and Rates

No significant factors influenced our preparation of the 2007 Road Commission budget.

Requests for Information

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Lake County Road Commission, P.O. Box 790, Baldwin, Michigan 49304.

BASIC FINANCIAL STATEMENTS

LAKE COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2006

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and interest bearing deposits	\$ 827,195	\$ -	\$ 827,195
Accounts receivable			
State trunkline maintenance	47,735	-	47,735
Due on county road agreements	2,310	-	2,310
Motor vehicle highway funds	413,985	-	413,985
Accrued interest	6,151	-	6,151
Other	18,255	-	18,255
Inventories			
Equipment material and parts	9,869	-	9,869
Road materials	281,799	-	281,799
Capital assets			
Land and improvements	-	61,825	61,825
Construction in progress	-	8,903	8,903
Depletable assets	-	29,709	29,709
Property and equipment - net of accumulated depreciation	-	1,547,406	1,547,406
Infrastructure - net of accumulated depreciation	-	1,299,798	1,299,798
Total assets	<u><u>\$ 1,607,299</u></u>	<u><u>\$ 2,947,641</u></u>	<u><u>\$ 4,554,940</u></u>
LIABILITIES			
Accounts payable	\$ 37,234	\$ -	\$ 37,234
Accrued liabilities	19,177	-	19,177
Long-term liabilities			
Due within one year	-	50,515	50,515
Due after one year	-	127,487	127,487
Total liabilities	<u>56,411</u>	<u>178,002</u>	<u>234,413</u>
Fund Balance/Net Assets			
Fund balance			
Reserved for inventory	291,668	(291,668)	-
Unreserved, undesignated	1,259,220	(1,259,220)	-
Total fund balance	<u>1,550,888</u>	<u>(1,550,888)</u>	<u>-</u>
Total liabilities and fund balance	<u><u>\$ 1,607,299</u></u>		
Net Assets:			
Invested in capital assets, net of related debt		2,911,291	2,911,291
Unrestricted		1,409,236	1,409,236
Total net assets		<u><u>\$ 4,320,527</u></u>	<u><u>\$ 4,320,527</u></u>

The accompanying notes are an integral part of these financial statements.

LAKE COUNTY ROAD COMMISSION
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets

DECEMBER 31, 2006

Fund balances - General Fund	\$ 1,550,888
------------------------------	--------------

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - land	61,825
Add - construction in progress	8,903
Add - depletable assets	29,709
Add - property and equipment	6,080,913
Add - infrastructure	1,776,421
Deduct - accumulated depreciation	(5,010,130)

Long-term liabilities, including bonds payable and capital leases payable are not due and payable in the current period and therefore, are not reported in the funds

Deduct - installment purchase agreements	(36,350)
Deduct - accrued compensated absences	(141,652)

Net assets of governmental activities	<u>\$ 4,320,527</u>
---------------------------------------	---------------------

The accompanying notes are an integral part of these financial statements.

LAKE COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 3,328,471	\$ 448,014	\$ 3,776,485
Capital outlay	684,188	(684,188)	-
Total expenditures/expenses	<u>4,012,659</u>	<u>(236,174)</u>	<u>3,776,485</u>
Program revenue			
Charges for services	394,064	-	394,064
Operating grants and contributions			
State transportation funds	2,770,250	-	2,770,250
Capital grants and contributions			
Federal and state sources	259,509	-	259,509
Total program revenues	<u>3,423,823</u>	<u>-</u>	<u>3,423,823</u>
Net program revenue			<u>(352,662)</u>
General revenue			
Interest and rents	54,262	-	54,262
Contributions	50,092	-	50,092
Gain on sale of assets	5,671	-	5,671
Reimbursements	4,584	-	4,584
Total general revenue	<u>114,609</u>	<u>-</u>	<u>114,609</u>
Total revenue	3,538,432		
Other financing sources			
Installment lease / purchase proceeds	<u>60,000</u>	(60,000)	-
Total revenue and other financing sources	<u>3,598,432</u>		
Revenue over (under) expenditures and other financing sources	(414,227)	414,227	-
Changes in net assets	-	(178,053)	(238,053)
Fund balance/net assets:			
Beginning of the year	<u>1,965,115</u>	<u>2,593,465</u>	<u>4,558,580</u>
End of the year	<u>\$ 1,550,888</u>	<u>\$ 2,829,639</u>	<u>\$ 4,320,527</u>

The accompanying notes are an integral part of these financial statements.

LAKE COUNTY ROAD COMMISSION
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2006

Revenues under expenditures - General Fund	\$ (414,227)
--	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense

Add - capital outlay	264,927
Add - Infrastructure purchases	419,261
Deduct - depreciation expense	(537,961)

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long term liabilities in the Statement of Net Assets	(60,000)
---	----------

Repayment of the principal on long-term debt consumes current financial resources of governmental funds. This transaction, however, does not affect net assets. The amount is the effect of this difference in the treatment of long-term debt	23,650
--	--------

The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund	66,297
---	--------

Change in net assets of governmental activities	<u><u>\$ (238,053)</u></u>
---	----------------------------

The accompanying notes are an integral part of these financial statements

LAKE COUNTY ROAD COMMISSION

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
State sources				
Michigan Transportation funds				
Engineering	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Snow removal	80,000	80,000	81,720	1,720
Allocation	2,750,000	2,750,000	2,678,530	(71,470)
Exchange of federal funds for state funds	180,000	180,000	146,162	(33,838)
Department of natural resources	-	-	15,510	15,510
Economic development funds				
Forest Road (E)	98,000	98,000	97,837	(163)
Contributions				
Townships	90,000	90,000	42,701	(47,299)
Other	7,000	7,000	-	(7,000)
Charges for services				
State trunkline maintenance	370,000	370,000	347,098	(22,902)
Salvage sales	1,000	1,000	4,265	3,265
Interest and rentals	1,300	1,300	54,262	52,962
Other revenue				
Gain (loss) on equipment disposal	-	-	5,671	5,671
Contributions	-	-	50,092	50,092
Reimbursements	-	-	4,584	4,584
Total revenue	3,587,300	3,587,300	3,538,432	(48,868)
Other financing sources				
Installment lease / purchase proceeds	-	-	60,000	60,000
Total revenue and other financing sources	3,587,300	3,587,300	3,598,432	11,132

LAKE COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
Primary Road				
Heavy maintenance	\$ 120,000	\$ 120,000	\$ 298,863	\$ (178,863)
Maintenance	1,150,000	1,150,000	1,383,360	(233,360)
Local Road				
Heavy maintenance	-	-	120,398	(120,398)
Maintenance	1,500,000	1,500,000	1,627,169	(127,169)
Structure maintenance	34,200	34,200	-	34,200
Total maintenance	2,804,200	2,804,200	3,429,790	(625,590)
State trunkline maintenance	380,000	380,000	347,098	32,902
Equipment expense (net)	337,300	337,300	313,833	23,467
Administrative expense (net)	260,000	260,000	(15,629)	275,629
Capital outlay (net)	(219,200)	(219,200)	(86,083)	(133,117)
Debt service	-	-	23,650	(23,650)
Other	25,000	25,000	-	25,000
Total expenditures	3,587,300	3,587,300	4,012,659	(425,359)
Net change in fund balance	-	-	(414,227)	(414,227)
Fund balances, beginning of year	1,965,115	1,965,115	1,965,115	-
Fund balances, end of year	<u>\$ 1,965,115</u>	<u>\$ 1,965,115</u>	<u>\$ 1,550,888</u>	<u>\$ (414,227)</u>

The accompanying notes are an integral part of these financial statements.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lake County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

A. Reporting Entity

The *Lake County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Lake, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

B. Government-wide and Fund Financial Statements

The government-wide financial *statements* (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities *demonstrates* the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund balance sheet and the statement of net assets and the general fund statement of revenues, expenditures and changes in fund balance and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major *governmental* fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

2. Inventory

Inventory, consisting of various operating parts, supplies and road material is stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) in 2006 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years
Infrastructure – traffic signals	15 years

4. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended December 31, 2006, has not been

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

determined. Preliminary results of the State's audit procedures for 2004 and 2005 indicate that the Road Commission may owe the State approximately \$52,000 in 2007 for expenditures reported in 2004 and 2005.

5. Compensated Absences

Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

The Superintendent submits a proposed budget for the upcoming year to the Board of County Road Commissioners. The budget is reviewed by the Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

LAKE COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

Deposits

At year-end, the carrying amounts of the Road Commission's deposits were as follows:

	Cash and Cash <u>Equivalents</u>
Certificates of deposit	\$ 517,832
Other demand accounts	<u>309,363</u>
	<u><u>\$ 827,195</u></u>

This entire balance is considered to be deposits for disclosure purposes.

Deposit and investment risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Interest Rate Risk. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, the Road Commission had no investments and was therefore, not exposed to credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, \$777,322 of the Road Commission's bank balance of \$877,322 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, The Road Commission had no investments and was therefore, not exposed to concentration of credit risk.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
Capital assets not being depreciated				
Land and improvements	\$ 48,825	\$ 13,000	\$ -	\$ 61,825
Construction in progress	-	8,903		8,903
Depletable assets	<u>29,709</u>	<u>-</u>	<u>-</u>	<u>29,709</u>
Total capital assets not being depreciated	<u>78,534</u>	<u>21,903</u>	<u>-</u>	<u>100,437</u>
Capital assets being depreciated				
Buildings	1,363,180	-	-	1,363,180
Road equipment	4,184,679	241,788	(104,377)	4,322,090
Shop equipment	133,943	-	-	133,943
Engineers equipment	27,167	-	-	27,167
Yard and storage equipment	142,200	10,139	-	152,339
Office equipment	82,194	-	-	82,194
Infrastructure – roads	<u>1,366,063</u>	<u>410,358</u>	<u>-</u>	<u>1,776,421</u>
Total capital assets being depreciated	<u>7,299,426</u>	<u>662,285</u>	<u>(104,377)</u>	<u>7,857,334</u>
Less accumulated depreciation				
Buildings	(477,598)	(28,583)	-	(506,181)
Road equipment	(3,503,625)	(303,392)	104,377	(3,702,640)
Shop equipment	(102,542)	(4,479)	-	(107,021)
Engineers equipment	(20,478)	(1,064)	-	(21,542)
Yard and storage equipment	(110,229)	(12,822)	-	(123,051)
Office equipment	(72,402)	(670)	-	(73,072)
Infrastructure – roads	<u>(289,672)</u>	<u>(186,951)</u>	<u>-</u>	<u>(476,623)</u>
Total accumulated depreciation	<u>(4,576,546)</u>	<u>(537,961)</u>	<u>104,377</u>	<u>(5,010,130)</u>
Net capital assets being depreciated	<u>2,722,880</u>	<u>124,324</u>	<u>-</u>	<u>2,847,204</u>
Total net capital assets	<u>\$ 2,801,414</u>	<u>\$ 146,227</u>	<u>\$ -</u>	<u>\$ 2,947,641</u>

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<u>Balance January 1, 2006</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance December 31, 2006</u>	<u>Due Within One Year</u>
Installment purchase agreements	\$ -	\$ 60,000	\$ (23,650)	\$ 36,350	\$ 36,350
Compensated absences	<u>213,759</u>	<u>108,933</u>	<u>(181,040)</u>	<u>141,652</u>	<u>14,165</u>
Total	<u>\$ 213,759</u>	<u>\$ 168,933</u>	<u>\$ (204,690)</u>	<u>\$ 178,002</u>	<u>\$ 50,515</u>

A summary of outstanding debt as of December 31, 2006, is as follows:

Capital lease payable to Strick Topsoil, due in ten (10) monthly installments of \$6,000 with 0% interest through June, 2007.	36,350
Accrued vacation and sick leave	<u>141,652</u>
Total	<u>\$ 178,002</u>

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 16.08% of annual covered payroll. Road Commission employees are required to contribute 2% of their annual covered payroll to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$235,315 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2004	\$188,444	100%	\$ -
12/31/2005	205,693	100	-
12/31/2006	235,315	100	-

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2003	\$ 4,627,401	\$ 6,392,274	\$ 1,764,873	72%	\$ 1,219,313	145%
12/31/2004	4,854,999	6,781,539	1,926,540	72	1,180,521	163
12/31/2005	5,052,660	7,287,772	2,235,112	69	1,170,898	191

B. Self-Insurance Pool

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

C. Contingencies

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

* * * * *

OPERATING FUND SCHEDULES

LAKE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Revenues				
State sources				
Michigan transportation funds				
Engineering	\$ 5,077	\$ 4,923	\$ -	\$ 10,000
Snow removal	41,491	40,229	-	81,720
Allocation	1,359,957	1,318,573	-	2,678,530
Other				
Exchange of federal funds for state funds	146,162	-	-	146,162
REV ORV (DNR)	3,360	12,150	-	15,510
Economic development funds				
Forest roads (E)	65,561	32,276	-	97,837
Contributions from local units				
Townships	-	-	42,701	42,701
Charges for services				
State trunkline maintenance	-	-	347,098	347,098
Salvage sales	-	-	4,265	4,265
Interest and rentals	-	-	54,262	54,262
Other				
Gain on equipment disposal	-	-	5,671	5,671
Contributions	-	-	50,092	50,092
Reimbursements	-	-	4,584	4,584
Other Financing Sources				
Installment lease / purchase proceeds	-	-	60,000	60,000
Total revenues and other financing sources	<u>\$ 1,621,608</u>	<u>\$ 1,408,151</u>	<u>\$ 568,673</u>	<u>\$ 3,598,432</u>

LAKE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Expenditures				
Heavy maintenance				
Roads	\$ 289,960	\$ 120,398	\$ -	\$ 410,358
Stuctures	8,903	-	-	8,903
Maintenance				
Roads	1,132,747	1,362,922	-	2,495,669
Winter maintenance	246,726	259,379	-	506,105
Traffic control	3,887	4,868	-	8,755
Total maintenance	1,682,223	1,747,567	-	3,429,790
State trunkline maintenance	-	-	347,098	347,098
Equipment expense (net)	153,927	159,906	-	313,833
Administrative expense (net)	(4,631)	(8,439)	(2,559)	(15,629)
Capital outlay (net)	-	-	(86,083)	(86,083)
Debt service: principal	-	-	23,650	23,650
Total expenditures	<u>\$ 1,831,519</u>	<u>\$ 1,899,034</u>	<u>\$ 282,106</u>	<u>\$ 4,012,659</u>

LAKE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 1,621,608	\$ 1,408,151	\$ 568,673	\$ 3,598,432
Total expenditures	<u>1,831,519</u>	<u>1,899,034</u>	<u>282,106</u>	<u>4,012,659</u>
Revenues over (under) expenditures	(209,911)	(490,883)	286,567	(414,227)
Other financing sources (uses)				
Intrafund transfers	<u>-</u>	<u>490,392</u>	<u>(490,392)</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other (uses)	(209,911)	(491)	(203,825)	(414,227)
Fund balance, beginning of year	<u>1,102,489</u>	<u>491</u>	<u>862,135</u>	<u>1,965,115</u>
Fund balance, end of year	<u>\$ 892,578</u>	<u>\$ -</u>	<u>\$ 658,310</u>	<u>\$ 1,550,888</u>



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

June 22, 2007

To the Board of County Road Commissioners
Lake County Road Commission
Baldwin, Michigan

In planning and performing our audit of the financial statements of the **Lake County Road Commission** for the year ended December 31, 2006, we considered the Road Commission's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 22, 2007, on the financial statements of the **Lake County Road Commission**.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Road Commission personnel, and we will be pleased to discuss these comments in further detail at your convenience, or perform any additional studies of these matters, or to assist you in implementing the recommendations.

LAKE COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

1) Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

LAKE COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

2) **Accounting for Capital Assets (Land, Buildings, Equipment, etc.)**

Historically, the Road Commission has accounted for its capital assets using manual ledger books and has recently attempted to account for its capital assets using a computerized general ledger accounting system (Cogitate). During our audit procedures, we were able to utilize information in the manual ledger books as the basis of our audit opinion; however, the computerized system does not accurately account for the Road Commission's capital assets.

Recommendation:

The Road Commission should consider conducting a physical inventory of its capital assets and account for the capital assets using the computerized general ledger accounting system. This project would require a significant amount of time in its initial stages but would likely result in a more accurate and efficient way of accounting for the Road Commission's capital assets.

3) **Compliance with Provisions of "Determining Lawful Expenditures" Document**

In January 2002, the State published a document titled, "Determining Lawful Expenditures". An excerpt in that document indicates that, "Retirement functions, gifts or plaques for employees or officials...are usually not for a public purpose, therefore not an allowable expense". Results of our procedures indicated that the Road Commission incurred minor expenditures for items that appear to be for retirement gifts.

Recommendation:

The Road Commission should not pay for items that violate provisions of the "Determining Lawful Expenditures" document or other laws, contracts, etc.

4) **Review and Approval of Transfer Vouchers / Journal Entries**

Transfer vouchers are one method used to record financial activity on the Road Commission's general ledger accounting system. Generally, only the Clerk post transfer vouchers to the general ledger accounting system. The Road Commission's current internal control procedures do not require that journal entries are reviewed and approved by a responsible official that is independent of the transfer voucher preparation.

Recommendation:

The Road Commission should adopt and enforce a policy that requires that all adjusting journal entries are reviewed and approved by a responsible independent official, prior to being posted to the general ledger.

LAKE COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

5) **GASB Statement Numbers 43 and 45, Regarding Post-Employment Benefits Other than Pensions**

GASB Statement Number 43 will first be effective for the Road Commission's fiscal year ended December 31, 2008. Generally, the provisions of this statement will require the Road Commission to have an actuarial valuation performed of its post-employment benefits (other than pensions). GASB Statement Number 45 will first be effective for the Road Commission's fiscal year ended December 31, 2009, and will generally recommend that the Road Commission make actuarially determined contributions into a separate legal trust account to fund for those benefits.

Recommendation:

The Road Commission should implement a plan that will ensure compliance with these statements, including having an updated valuation of its liability for post-employment benefits and addressing contributions in future budgets, in the event that the Road Commission chooses to make the actuarially determined contributions.